Competitive Pricing of Farmer Mac's Mortgage-Backed Securities and Its Future Viability: A Contingent Claims Analysis Approach

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Abstract

A continuous-time contingent claims pricing model is used to price Farmer Mac mortgage-backed securities. The required investor yields are then compared with mortgage rates from various financial institutions to determine the competitiveness of loan rates needed for the Farmer Mac market Our results indicate that Farmer Mac I, the secondary market program for agricultural real estate and rural housing loans, may have difficulty offering competitive rates under its fixed-rate mortgage structure, largely as a result of new risk-based capital adequacy regulations. On the other hand, Farmer Mac II, the secondary market program for Farmers Home Administration (FmHA) guaranteed loans, is likely to be strongly competitive.

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